

# PERSONAL FINANCE

## Public hearing on the National Credit Amendment Bill

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# Case study: reckless lending

- Client approaches bank for a home loan.
- Bank consultant advises her to take out a personal loan and revolving credit as well as a home loan.
- Client says she can't afford repayments on the personal loan.
- Bank consultant advises that home loan can be used to pay off personal loan.
- Home loan is declined on the basis of unaffordability.
- Personal loan is granted on the basis of R6000 living expenses; client says her living expenses are more than double R6000.

# Case study: reckless lending

- Client cancels/pays back the R60 000 personal loan because she can't afford the repayments.
- Bank demands R4028 in fees and interest incurred over 7 weeks.

The National Credit Amendment Bill needs to:

1. Issue binding affordability regulations. Clearly “guidelines” are not enough. The Bill is correct to allow for binding affordability regulations.

# Case study: reckless lending

The National Credit Amendment Bill needs to:

2. Prohibit credit providers from misselling credit products to consumers. The employees of credit providers should NOT be allowed to give credit advice without proper training and regulatory oversight. Even if they had the appropriate FAS-type NCR training, they should not be incentivised on credit acceptances, because this creates an inherent conflict of interest. The Bill should address this by prohibiting misselling.

# Case study: reckless lending

The National Credit Amendment Bill needs to:

3. Empower the NCR to investigate cases of reckless lending of their own accord or when approached by consumers so that consumers can get redress. The Bill has a provision to enable the regulator to do so.
4. Make provision for the cancellation of an unused credit facility at a nominal fee.

# Case study: debt 'counselling'



- Ms L is a 55-year-old single mother.
- In July 2013, she applied to go into debt review. She owed R70500 (5 credit agreements).
- In Nov she received her proposal. Two creditors rejected it.
- One creditor (that accepted it) harasses her incessantly.
- Her debt counselling company is demanding R3500 for legal fees.
- She turns to Personal Finance.
- Her proposal reflects a R9000 salary; she earns R5000.

# Case study: debt 'counselling'

- On Monday, the credit provider that has been harassing Ms L handed over her account to collection agents.
- She forwarded the email to her debt counsellors and has not yet had a response.
- Ms L fears that the debt counselling firm is doing nothing more for her – not until she can find R3500 for legal fees.

This case shows that:

- Debt counsellors must face stiff penalties or de-registration for proposals that are fraudulent or designed purely to get acceptances from credit providers.

# Case study: debt 'counselling'

- Debt counsellors should be required to have face-to-face meetings with consumers in which they properly explain all fees.
- Debt counselling and legal fees should be limited and paid from the consumer's monthly debt repayment amount – on a pro rata basis along with the credit providers.
- Debt counsellors should be required to complete a detailed budget with the consumer with the aim of helping consumers decrease their expenses so as to find more money to repay debt.
- Credit providers should be forced to provide consumers in debt counselling with a copy of their monthly account statement showing the receipt of instalments.



# Case study: debt 'counselling'

- Debt collectors should be barred from contacting consumers who are under debt counselling and maintaining their payments.
- Payment Distribution Agencies should be obliged to send consumers in debt counselling a monthly distribution statement.

Thank you



